

**REPORT OF THE AUDIT OF THE
FORMER LESLIE COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

APRIL 24, 2002



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER LESLIE COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

April 24, 2002

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2000 Taxes for the former Leslie County Sheriff as of April 24, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$2,546,112 for the districts for 2000 taxes, retaining commissions of \$106,031 to operate the Sheriff's office. The former Sheriff distributed taxes of \$2,437,819 to the districts for 2000 Taxes. Taxes of \$422 are due to the districts from the former Sheriff and refunds of \$523 are due to the former Sheriff from the taxing districts.

Debt Obligations:

None.

Report Comments:

- The County Revenue Bond Should Adequately Protect The County From Potential Loss
- The Former Sheriff Should Have Prepared An Accurate Settlement
- The Former Sheriff Should Have Collected Prior Year Uncollected Amounts Due Tax Account
- The Former Sheriff Should Close Tax Accounts By Collecting All Receivables And Paying All Amounts Owed
- The Former Sheriff Should Collect Refunds Due To The Unmined Coal Tax Account And Distribute Additional Amounts Due To Others
- Lacks Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were adequately insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Kenneth Witt, Leslie County Judge/Executive
Honorable John C. Morgan, Leslie County Sheriff
Honorable James F. Davidson, Former Leslie County Sheriff
Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the former Leslie County Sheriff's Settlement - 2000 Taxes as of April 24, 2002. This tax settlement is the responsibility of the former Leslie County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Leslie County Sheriff's taxes charged, credited, and paid as of April 24, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Kenneth Witt, Leslie County Judge/Executive

Honorable John C. Morgan, Leslie County Sheriff

Honorable James F. Davidson, Former Leslie County Sheriff

Members of the Leslie County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 9, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The County Revenue Bond Should Adequately Protect The County From Potential Loss
- The Former Sheriff Should Have Prepared An Accurate Settlement
- The Former Sheriff Should Have Collected Prior Year Uncollected Amounts Due Tax Account
- The Former Sheriff Should Close Tax Accounts By Collecting All Receivables And Paying All Amounts Owed
- The Former Sheriff Should Collect Refunds Due To The Unmined Coal Tax Account And Distribute Additional Amounts Due To Others
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -

June 9, 2003

LESLIE COUNTY
 JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2000 TAXES

April 24, 2002

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 283,056	\$ 308,886	\$ 635,403	\$ 207,870
Tangible Personal Property	45,567	66,072	121,230	138,953
Intangible Personal Property				3,887
Fire Protection	5,474			
Taxes Increased Through				
Exonerations	63	66	140	46
Franchise Corporation	50,139	71,951	132,282	
Unmined Coal - 2000 Taxes	106,880	113,560	239,923	78,490
Additional Billings	806	934	1,920	747
Unmined Coal - Additional Billings	20	21	47	18
Oil and Gas Property Taxes	39,903	42,397	89,574	29,304
Penalties	4,240	4,647	9,567	3,507
Adjusted to Sheriff's Receipt	(186)	(150)	(418)	(949)
Gross Chargeable to Sheriff	<u>\$ 535,962</u>	<u>\$ 608,384</u>	<u>\$ 1,229,668</u>	<u>\$ 461,873</u>
<u>Credits</u>				
Exonerations	\$ 3,472	\$ 3,684	\$ 7,772	\$ 2,562
Discounts	4,779	5,412	10,880	5,200
Unmined Coal - Discounts	1,939	2,060	4,353	1,424
Delinquents:				
Real Estate	38,984	41,642	86,674	28,355
Unmined Coal - Delinquent Real Estate	6,337	6,733	14,225	4,654
Tangible Personal Property	403	585	1,265	924
Uncollected Franchise	1,068	1,549	2,840	
Total Credits	<u>\$ 56,982</u>	<u>\$ 61,665</u>	<u>\$ 128,009</u>	<u>\$ 43,119</u>
Taxes Collected	\$ 478,980	\$ 546,719	\$ 1,101,659	\$ 418,754
Less: Commissions *	20,644	23,236	44,066	18,085
Taxes Due	\$ 458,336	\$ 523,483	\$ 1,057,593	\$ 400,669
Taxes Paid	458,057	523,008	1,056,175	400,579
State Credit - 2000 Taxes				96
Refunds (Current and Prior Year)	453	471	1,000	343
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (174)</u>	<u>\$ 4</u>	<u>\$ 418</u>	<u>\$ (349)</u>

The accompanying notes are an integral part of the financial statement.

LESLIE COUNTY
 JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2000 TAXES
 April 24, 2002
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,434,453
4% on	\$	1,101,659

** Special Taxing Districts:

Library District	\$	13
Health District		(7)
Extension District		(11)
Soil Conservation District		(3)
City of Hyden		<u>12</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>4</u></u>

The accompanying notes are an integral part of the financial statement.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENTS

April 24, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 24, 2002, the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former Sheriff's agent in the former Sheriff's name, or provided surety bond which named the former Sheriff as beneficiary/obligee on the bond.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
April 24, 2002
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was July 30, 2001 through February 4, 2002.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2000. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was July 27, 2001 through February 4, 2002.

Note 4. Interest Income

The former Leslie County Sheriff earned \$2,624 as interest income on 2000 taxes. The former sheriff distributed the appropriate amount to the school district as required by statute and the remainder was used to operate the former sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The former Leslie County Sheriff collected \$15,603 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the former Sheriff's office.

Note 6. Advertising Costs and Fees

The former Leslie County Sheriff collected \$1,220 of advertising costs and \$3,515 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The former sheriff paid advertising costs to his fee account rather than the fiscal court. Because of this, the fee account owes the fiscal court \$1,220 in advertising costs. Advertising fees were appropriately paid to the fee account and used to operate the sheriff's office.

Note 5. Former Sheriff Ford Bowling Criminal Indictment and Civil Action

On October 4, 1995, a three county indictment (95-CR-00056) was returned by the Leslie County Grand Jury charging former Sheriff Ford Bowling with failing to properly account for and disburse tax money collected by his office. This indictment related to former Sheriff Ford Bowling having a cumulative deficit of \$148,592 in his property tax account. The indictment was dismissed without prejudice on January 26, 1998. On February 28, 1996, a civil action (96-CI-00043) was filed by the Leslie County Fiscal Court and other taxing districts against former Sheriff Ford Bowling and his bonding companies. The civil action also related to the cumulative deficit of \$148,592 and asked for a judgment that the appropriate amount of tax money, advertising costs, and interest and fees due and owing to be paid to each taxing district and that excess fees due Leslie County Fiscal Court be paid. The civil action was dismissed on January 26, 2001.

COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
 JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

April 24, 2002

STATE LAWS AND REGULATIONS:

1. The County Revenue Bond Should Adequately Protect The County From Potential Loss

The fiscal court should review the Sheriff's county revenue bond. KRS 134.230 and KRS 134.250 give the Fiscal Court the authority to require the Sheriff to have a county revenue bond. The county revenue bond is supposed to cover all tax monies in the Sheriff's possession. During the 2000 tax year, the former sheriff did not obtain a county revenue bond. Since there was no bond the fiscal court was not adequately protected from potential loss. We recommend the Fiscal Court review the Sheriff's county revenue bond and take the appropriate action necessary to ensure that the state, county, and other districts are adequately protected

Former Sheriff Davidson's Response:

I assumed this was taken care of.

2. The Former Sheriff Should Have Prepared An Accurate Settlement

The former Sheriff's settlement for the 2000 regular taxes and 2000 unmined coal taxes was not properly prepared. Numerous account categories were incorrectly stated on the Sheriff's settlement. In addition, supporting documentation for some amounts reflected on the Sheriff's settlement were not available for the auditor to examine. Because of this, the auditors had to perform additional procedures to arrive at the final settlement amounts and to determine if the financial statements were materially correct. We recommend that the Sheriff's settlement be accurately prepared in the future and that all documentation be readily available for the auditor to examine.

Former Sheriff Davidson's Response:

This will be taken care of in the future.

3. The Former Sheriff Should Have Collected Prior Year Uncollected Amounts Due Tax Account

In prior year audit reports for the 1998 and 1997 taxes, we recommended that the former Sheriff collect several receivables and pay several liabilities. The former Sheriff collected most of the receivables and paid all liabilities reported in those prior year audit reports. Since the former Sheriff did not collect all receivables, he transferred money from his 1999 property tax account to pay all 1998 and 1997 tax account liabilities. Those amounts are now due to be repaid to the 1999 property tax account. As of the current date, the following prior year refunds due to the former Sheriff's tax account have not been collected:

<u>1998 Property Taxes-Uncollected Refunds</u>	<u>1997 Property Taxes-Uncollected Refunds</u>
Kentucky State Treasurer	Kentucky State Treasurer
\$1,168	\$156

LESLIE COUNTY
 JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
 COMMENTS AND RECOMMENDATIONS
 April 24, 2002
 (Continued)

3. The Former Sheriff Should Have Collected Prior Year Uncollected Amounts Due Tax Account
 (Continued)

We recommend the former Sheriff collect amounts due from the state. Once the former Sheriff collects these refunds, he should deposit them into the 1999 property tax account as repayment of amounts transferred from the 1999 account to settle 1998 and 1997 tax liabilities.

Former Sheriff Davidson's Response:

We are in contact with state trying to settle this.

4. The Former Sheriff Should Close Tax Accounts By Collecting All Receivables And Paying All Amounts Owed

The proper distribution of tax money collected by former Sheriff requires the collection of receivables (including overpayment to some taxing districts) and the payment of these funds to the appropriate taxing districts. The following net collections and net payables should be made from the 2000 regular taxes:

<u>Refunds Due To The Tax Account</u>		<u>Amounts To Be Paid To Others</u>	
Kentucky State Treasurer	\$ 46	Leslie County School	\$ 503
Leslie County Fiscal Court	138	Library	32
Fee Account Overpayment	<u>263</u>	City of Hyden	<u>12</u>
Totals	<u>\$ 447</u>	Totals	<u>\$ 547</u>

Former Sheriff Davidson's Response:

I will take care of this as soon as I can.

JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
 COMMENTS AND RECOMMENDATIONS
 April 24, 2002
 (Continued)

5. The Former Sheriff Should Collect Refunds Due To The Unmined Coal Tax Account And Distribute Additional Amounts Due To Others

Based upon test procedures, our audit reflects the following refunds due the former Sheriff and the following amounts due others for the 2000 unmined coal tax transactions:

<u>Refunds Due To The Tax Account</u>		<u>Amounts To Be Paid To Others</u>	
Kentucky State Treasurer	\$ 303	Amount Due Fee Account	\$ 279
Leslie County Fiscal Court	36	Add On Fees Due Fee Account	66
Leslie County School	85		
Library	19		
Health	7		
Extension Service	11		
Soil Conservation	3		
	<u> </u>		<u> </u>
Totals	<u>\$ 464</u>	Totals	<u>\$ 345</u>

We recommend that the former Sheriff collect refunds due the 2000 unmined coal tax account. Furthermore, we recommend that the former Sheriff pay the additional amounts due others as soon as the refunds are collected.

Former Sheriff Davidson's Response:

I will take care of this as soon as I can.

INTERNAL CONTROL - MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The former Sheriff's office had a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically, and on a surprise basis, compare a daily bank deposit to the daily checkout sheet and the compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The sheriff could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should periodically, and on a surprise basis, compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
April 24, 2002
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS: (Continued)

Lacks Adequate Segregation Of Duties (Continued)

Former Sheriff Davidson's Response:

I did these procedures but did not document in written format.

PRIOR YEAR:

- The Former Sheriff Should Have Obtained A County Revenue Bond
- The Former Sheriff Should Have Prepared An Accurate Settlement
- The Former Sheriff Should Collect Prior Year Uncollected Amounts Due Tax Account
- Lacks Adequate Segregation of Duties

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Leslie County Sheriff's Settlement - 2000 Taxes as of April 24, 2002, and have issued our report thereon dated June 9, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Leslie County Sheriff's Settlement - 2000 Taxes as of April 24, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Revenue Bond Should Adequately Protect The County From Potential Loss
- The Former Sheriff Should Have Prepared An Accurate Settlement
- The Former Sheriff Should Have Collected Prior Year Uncollected Amounts Due Tax Account
- The Former Sheriff Should Close Tax Accounts By Collecting All Receivables And Paying All Amounts Owed
- The Former Sheriff Should Collect Refunds Due To The Unmined Coal Tax Account And Distribute Additional Amounts Due To Others



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Leslie County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 9, 2003

